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LDP Settles Party Leadership Posts

The Liberal Democratic Party officially endorsed Noboru Takeshita as party president October 31 to succeed Yasuhiro Nakasone, who held the office for five years. Mr. Takeshita immediately named former foreign minister Shintaro Abe LDP secretary general, the number-two position, Masayoshi Ito party executive council chairman and Michio Watanabe, chairman of the policy affairs research committee.

The appointments serve to confirm the existence of a Takeshita-Abe alliance -- however fragile -- that helped launch Mr. Takeshita into the premiership November 6. Media observers roundly suspected at least an informal agreement between the two allowed Mr. Takeshita to take the top job this time in exchange for an Abe government in the future. By taking the secretary general position, Mr. Abe becomes Mr. Takeshita's logical successor when the time comes.

Mr. Watanabe also enters the ranks of future contenders by virtue of his combined party and cabinet expertise. He served at one point during the

Nakasone government as minister of International Trade and Industry. His new assignment is critical in developing the network of support necessary in LDP politics to become party president. Furthermore, the promotion boosts his leadership potential within the Nakasone faction, a significant consideration since he already is viewed as a possible heir.

Mr. Watanabe's party post has assumed growing prominence in government policymaking procedures in recent years and will allow him to make a significant impact on the new government's positions. In effect, he will oversee development of the party's stance on virtually every issue facing the Japanese government, paralleling the bureaucratic structure and indeed preparing what frequently become official government positions. Within the party, Mr. Watanabe is considered an authority on the tax code, suggesting that tax reform will be one of the most important domestic priorities of the new government.

Kiichi Miyazawa, the third of the "new leaders" who sought the LDP presidency, will be deputy prime minister under the new regime. This allows him to retain a certain amount of influence within party ranks and gives the new government the opportunity to utilize his considerable talents as a trouble-shooter if need be. It is also a facesaving gesture in the wake of his unsuccessful bid for the premiership. Mr. Miyazawa might have input through other avenues as well, since he is likely to hold onto his portfolio as finance minister in the new government.

Although the final cabinet lineup had not been announced at JEI press time, several factors will be important in drawing meanings from the new alignment, including the relative distribution by faction of important posts and the positions held by potential successors to the "new leaders." Mr. Miyazawa's retention would be a logical step in light of the current uncertainty surrounding financial markets.

Mr. Nakasone's influence in the new government could be significant in light of his potential input into a proposed government-sponsored think tank that will examine foreign policy issues and Mr. Watanabe's rise. Furthermore, Nakasone faction members are said to be contenders for the foreign minister post. Appointing a Nakasone faction member not only would demonstrate the importance of the former prime minister to the new government, but would also suggest policy continuity in Japan's foreign affairs.

Michael W. Chinworth

Liberal Democratic Party Positions
October 31, 1987

Position	Holder	Age	Faction
President	Noboru Takeshita	63	Takeshita
Secretary General	Shintaro Abe	63	Abe
Executive Council Chairman	Masayoshi Ito	74	Miyazawa
Policy Affairs Research Committee Chairman	Michio Watanabe	64	Nakasone

Factional Alignments in the Liberal Democratic Party
October 31, 1987

Faction	Number of Members
Takeshita	114
Miyazawa	89
Nakasone	87
Abe	87
Komoto	31
Nikaido	15
Neutralists*	12
Independents	10

*Former Tanaka faction members currently unaligned with any major faction.

Dollar Also Mauled By Stock Market Bears

Reflecting foreign uncertainty over the stability of the New York Stock Exchange and the economic impact of the October 19 stock market plunge, the dollar is being battered on foreign exchange markets around the globe. Paradoxically, the dollar's decline generated optimism that the United States would act decisively to curb its fiscal deficit and that the Western industrial nations would again meet to address exchange rate issues. In Japan, however, the dollar's decline cast a pall over the continuing growth of domestic demand and recent improvements in the profit pictures of export-dependent corporations.

Washington's decision to let the dollar sink appeared to be part of its strategy to stabilize markets around the globe. The Federal Reserve Board faced a difficult decision on interest rate policy immediately after the crash: if interest rates were set too high, the economy might slip into a recession; too loose a policy, on the other hand, could undermine the dollar, add to inflationary pressures and scare away the foreign investors that have been financing the U.S. budget deficit. The Fed decided to focus on preventing an economic downturn. On October 20 it announced that it would help banks meet increased liquidity demands caused by the stock market decline. Two days later major U.S. banks followed up the Fed announcement by reducing their prime lending rates by a quarter of a point, and within a week major short-term rates (such as the federal funds rate) had fallen as much as 1.5 points.

Oddly enough, the impact of these declines in exchange rates was delayed -- the dollar rose on the Tokyo interbank market from Y141.35 on October 19 to Y144.15 four days later. It was not until October 29 that the narrowed interest rate gap depressed the dollar, pushing it to its lowest level in almost 30 years, Y137.55. Although the greenback regained some ground the following day (closing at Y138.55), it fell back on November 2 to Y137.58. For several months before this time, the yen-dollar exchange rate had been relatively stable, fluctuating in a band between Y140 and Y150. Market observers speculated that this range was consistent with levels agreed to at the February meeting of the Group of Seven in Paris (see JEI Report No. 8B, February 27, 1987). When the dollar slipped below the Y140 level and the United States seemed unconcerned